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IMF approach to macroeconomic stabilization in LICs

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Abstract

I investigate in this pepper the IMF approach to fulfill its mandate in LOWE INCOM COUNTRIES by focusing on the importance of fiscal rules as a strong tool that could impact the fiscal stance and long-term growth in Lowe income countries. I presented details about the fiscal rules and their design elements particularly in support of enforcement in low-income countries. I took the fiscal rules imposed by the Economic and Monetary Community of Central Africa (EMCCA) on CAMERON as a case of study . I found The fiscal rules in low-income countries are very important. they help to increase stability by reducing the procyclicality of the policy if it is well designed and also, The supranational rules have proven their efficiency for the economic unions and countries monetary union because they maintain a certain level of fiscal discipline but the stabilization policies and fiscal rules have not achieved much growth in the long term, at least for the past 10 years Growth rates although they achieved sustainable debt level

Acronyms

IMF The international monetary fund

LIC The low income countries

GDP The Growth Domestic Product

SCF The Standby Credit Facility

RCF The Rapid Credit Facility

SBA The Stand-By Arrangement

EFF The Extended Fund Facility

ECF The Extended Credit Facility

ESAF The Enhanced Structural Adjustment Facility

PRS The poverty reduction strategy PRS

PRGF The Poverty Reduction Facility

CEMAC Economic and Monetary Community of Central Africa

Introduction

I chose this topic because of the importance of fiscal rules and their impact on the fiscal stance and long-term growth in Lowe income countries as one of the most recent tools of fiscal stabilization policy that the IMF encourages low-income countries to implement.

Most low-income countries suffer from a lack of fiscal discipline, and this increases the public deficit in them, which leads to a significant increase in public debt and increases the debt service burdens, and enters the country into a debt crisis, so fiscal sustainability has become a source of worry in these countries.

In order to solve this problem and make fiscal policy more sustainable, many low-income countries, encouraged by the International Monetary Fund, resorted to using fiscal rules.

For these reasons, I will try to find an answer to this question: How far do stabilization policies and fiscal rules imposed by the IMF to Low-Income Countries affect public service delivery and investment rates which are key for long term Development?

To response at this question, I will start with an introduction on the International Monetary Fund to know its role and its most important goals in low-income countries and its approach to achieving its goals, the most important of which is economic stability and growth by working to reform the distortions of these economies through structural adjustment policies.

We will address the most important features that characterize the economies of low-income countries and the most important modified programs in order to help these countries and the history of their development and the most important improvements in the conditionality system through the introduction of national ownership of the anti-poverty strategy. We will also be exposed to the most important types of concessional loans that these countries can take advantage of to overcome external and internal shocks In order to reduce the effects of economic fluctuations on the poor in these countries

We will be exposed to the most important analytical tools developed by the International Monetary Fund to guide macroeconomic policies in these countries such as controlling public debt and the fiscal rules applied to control the deficit in order to sustain debts and control spending to maintain the expenditures necessary for growth and for this reason I will be exposed to fiscal rules in much detail its definition and Their characteristics and gaps in each rule and the most favorable fiscal rules for low-income countries

After all this, we will put the fiscal rules on the test to answer the fundamental question of this work, is whether the stabilization policies and fiscal rules can achieve economic stability and sustainable growth in the long run?

To answer this question, we will present the experience of one low-income country with the fiscal rules, which is the country of Cameroon that has applied supranational fiscal rules imposed on it by the CAME Union since the year 2000 with analysis and discussion, and what has Cameroon achieved with these rules?

Before the conclusion, I will present the most important benefits of the policies and programs of the International Monetary Fund to low-income countries and the most important criticisms of these policies to be the conclusion about the conclusions reached and the most important suggestion.

1. The IMF role

The International Monetary Fund was created to be a force for achieving stability in the global financial system, promoting global trade, macroeconomic stability and growth of their member countries, while the World Bank is considered to be a development intuition as it helps countries to reduce poverty by focusing on the structural and organizational dimensions, but after the debt crisis In the 1980s, there was a significant overlap in tasks between the IMF and the World Bank, although the division of labor was evident when the two institutions were established.

For example, the primary role of the International Monetary Fund was to help countries overcome temporary imbalances in the balance of payments, but during the eighties and nineties it became playing a longer role by providing long-term loans to support strategies to fight poverty, achieve economic stability and increase growth.

In the 1980s, the IMF focused on assisting developing countries and economies in transition through loans and credit assistance and by establishing structural adjustment facilities (SAFs) later developed into the ESAF and recently to the PRGF Poverty Reduction Facility. These facilities have included the International Monetary Fund within the scope of the traditional competence of the World Bank.

To ensure macroeconomic stabilization in LIC The IMF provides financial resources to cover part of external deficit and budget deficit that may occur in case of structural fragility as well as in case of external and internal shocks… but only on the condition of approval of the policy that these countries need and helps them also to build their own capacities for Implement these policies

Another goal of both IMF and World Bank programs is the mobilization of private capital flows otherwise known as catalysis although there is still doubt about the importance of this catalysis effect.

But for the IMF there is also some evidence (Bulir and Hamann, 2001) "*that staying on track with IMF programmers does sharply reduce the volatility and shortfalls of aid flows – though both still remain remarkably high even with Fund programmers. HIPC Ministerial Network (2002 and 2003) indicates that one factor explaining continued volatility and shortfalls is that some Fund staff give behind the-scenes negative signals to donors about country commitment, while failing to explain the complex interaction of external shocks, programmer mis-design and poor implementation"* (Matthew Martin and Hannah Bargawi 2005).

The World Bank and the International Monetary Fund have used, since their creation, the conditionality tool to orientate policies member countries the fulfillment of these conditions is a necessary to benefit from their services with varying degrees of flexibility between the two institutions.

The World Bank has more conditions than the International Monetary Fund, and the World Bank considers the full fulfillment of the conditions of the International Monetary Fund is one of its basic conditions in dealing with low-income countries, It is known that the traditional conditionality inherent in most of the IMF and WB programs in low-income countries is to reduce the budget deficit by reducing government spending and devaluation the value of the national currency and limiting the domestic debt and structuring the economy through the privatization of public companies and the liberalization of trade, prices and interest rates…

The IMF's programs in the low-income countries faced a lot of criticism: policies are described as arbitrary and anti-growth in low-income countries, in contrast to the World Bank approach that some describe as a softer policy and more flexible in dealing with failure to fulfill conditions.

2. IMF approach to fulfill its mandate in LICs

In this part, we will get to know the most important goals of the International Monetary Fund in low-income countries and the most important common characteristic of these countries we will also show in some detail the IMF conditionality system and the chronological development of the IMF programs and the most important financing facilities for the low-income countries.

2.1 Main objectives pursued

The main objective of the IMF is to ensure sustainable imbalances and long term growth. The design of programs supported by the International Monetary Fund is based on an investigation Objectives set by the fund, i.e. structural policies that aim to achieve sustainable economic growth and poverty reduction To fix those objectives, the IMF uses financial models that work to manage public expenditures, revenues and debts that are compatible with sustainable growth . Fiscal rules are then discussed and applied in order to guide policy choices.

2.2 Main characteristics of LICs in terms of macroeconomic risks

Low-income countries suffer from difficulties indebts service due to the accumulation of large domestic and external arrears, which makes her always seeking restructured their external debt , as most Lowe income countries were classified in the past as poor and heavily indebted countries and eligible for debt relief under the HIPC initiative and the Paris Club.

As a result of weak economic structure and macroeconomic policy slippage, low-income countries, they are more vulnerable than other countries to the impact of external shocks. they are particularly vulnerable to trade shocks as a result of their weak production base and their dependence on the export of raw materials. Limited access to financial markets. Irregular debt and irregular subsidies make difficult to cover growing current account deficit Therefore, they resort to borrowing from multiple parties, including the International Monetary Fund.

The rise in food and fuel prices 2007 and 2008 has exacerbated the balance of payments conditions for these countries, and the recent pandemic crisis has had a significant negative impact on the economies of these countries, as is the case with the Corona crisis that has paralyzed the global economy as a whole, indeed that low-income countries will be the largest affected, which means the need for low-income countries for the IMF's funding has remained and remains vital and the evidence for this is the financial facilities that the International Monetary Fund (IMF) has granted in recent months to low-income countries to help them cope with this pandemic and its negative effects on their weak economies.

Table1 .The economies characteristic of SUB SAHARAN COUNTRIES since 2008.

Subject Descriptor	Units	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Gross domestic product, constant prices	Percent change	5.790	3.856	7.071	5.085	4.706	5.188	5.131	3.190	1.429	2.997	3.272	3.066
Gross domestic product per capita, constant prices	Purchasing power parity; percent change	2.946	1.028	4.120	2.272	1.534	2.403	2.385	0.483	-1.270	0.314	0.623	0.330
Inflation, average consumer prices	Percent change	12.832	9.633	8.004	9.282	9.078	6.491	6.277	6.862	10.703	10.737	8.335	8.382
General government net lending/borrowing	Percent of GDP	1.167	-4.447	-3.456	-1.167	-1.708	-3.044	-3.598	-4.156	-4.357	-4.506	-3.551	-4.332
Current account balance	Percent of GDP	0.242	-2.333	-0.795	-0.551	-1.639	-2.123	-3.520	-5.843	-3.817	-2.241	-2.525	-3.970

IMF WEB SIT Analytical Group Data

http://www.imf.org/external/pubs/ft/weo/2020/01/weodata/weoselagr.aspx

GRAFIC1: GDP growth (Annual %) for Low Income Countries

Source: World Bank national accounts data, and OECD National Accounts data files.

https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=XM

1) Real growth rates of LICs

Low-income countries witnessed a significant decline in development rates after 2008 due to the financial crisis that negatively affected the economies of donor countries and international loan institutions and also because of the fuel crisis in 2008 all this made the growth rate decrease in the LIC until it reached 2.3% in 2012 to increase again and the growth continue to rise until reaches 5.6% in the year 2013 to enter a new continuous decline to reach its lowest level of 2% in the year 2015 then it enters into a continuous decline due to the crisis of the decline in the prices of raw materials that are the basis of exports in low-income countries and after that the LIC keep the growth rate low between 3,5 and 4,5

Low growth greatly affected per capita income in low-income countries. According to the World Bank director in Africa2018, 12 sub saharien countries with 400 million people are at risk of declining per capita income, meaning that low-income countries are still fragile, unstable, and far from achieving sustainable development even though they have seen Significant development rates between 2008 and 2015, but after that, their development rates were very low

2) Evolution of Debt levels (in % of GDP) and debt services

Debt and debt benefits represent the biggest challenge facing low-income countries, where they have increased in recent years by very large proportions. Here, I will rely on more accurate data for sub-Saharan countries that include 6 low-income countries.

The debt in sub-Saharan countries increased from 34% of GDP in 2013 according to the IMF to Over 48% of GDP in 2016 and debt accumulation was greater in oil exporting countries, where public debt increased by 8% of GDP annually between 2013 and 2016, and this may explain by the fluctuations of oil prices and and the failure of fiscal policies to avoid these effects of oil price fluctuations by using some fiscal rules that can reduce the magnitude of this damage(IMF WEBSITE) also Oil revenues always encourage excessive spending due to expectations of large returns

As for the rest of the countries, the debt was increasing 5% of the GDP annually. The main factors behind this significant increase in debt levels in general are the budget deficit and the evaluation effects related to the exchange rate and the losses of state companies

As a result of this rapid accumulation of debt, the average debt service to revenues in sub-Saharan countries increased from 5% in 2013 to a huge figure of 25%, , according to the director of the Africa branch of the International Monetary Fund 2018.

These debts are undoubtedly becoming a major impediment to the development of these countries and It introduced this countries in a vicious cycle of borrowing to pay off only a portion of the debt interest.

3) Evolution of public revenues and public expenditures (in % of GDP)

The government revenues ,in low-income countries and sub-Saharan countries in general have remained unable to reduce levels of the budget deficit, and this is due to several reasons, including weak revenues due to insufficient resource mobilization policies in these countries due to the weakness of the tax system as a result of the inefficiency of management and the spread of bribery And patronage.

The other side is the aspect of expenditures. These countries still have a very large need for development. Therefore, they have to spend in excess as a result of their need for infrastructure and social spending on health and education in order to form future generations.

Inefficiency of government projects also is one of the most important methods of lost government spending, especially since bribery and accounting fraud are common in these countries as a result of weak administration and civil society organizations.

The accumulated public debt service also absorbs a large percentage of government revenue and crowds out spending necessary for development. For example, Zambia’s spending on debt service exceeds half of what it spends on health and education in 2011.

4) Evolution of external current account (in % of GDP)

Balance of the current balance account for sub-Saharan countries, it remained negative during the past ten years, due to several reasons.

Firstly, most of these countries ’exports raw materials, and they import almost everything because of the lack of development of the industrial sector in these countries and their failure to add value to these materials in order to achieve a portion of self-sufficiency and export their raw materials at a more expensive price.

Secondly, these countries import a lot of capital goods for industry and infrastructure.

Thirdly, fluctuations in the prices of raw materials in global markets, and the fact that these countries are not the ones who determine the price, but are merely price taker according to international supply and demand for these commodities.

Fourth: The injustice of the international trade system and the strength of competition in global markets.

2.3 IMF programs and tools specifically adapted to LICs and their evolution

The International Monetary Fund has endeavored to support developing countries, especially low-income countries, through structural reforms that achieve macroeconomic stability through lending facilities to correct imbalances in the balance of payments and budget deficits and to maintain debt stability and help them absorb external trade shocks And that is through a simple conditionality system and improved programs that take into account the specificity of these countries. Here, we will be exposed to the conditionality system of the International Monetary Fund and the most important improvements that occurred on the Fund's programs during the past twenty years.

Conditionality is one of the elements in a broad strategy to help countries design and implement strong financial policies conditionality is the linking of financing by the International Monetary Fund to programs that the Fund deems appropriate to correct imbalances in the country's economic structure.

The International Monetary Fund has paid attention to the permanent improvement of the principles of conditionality through many of the principles necessary for successful design and implementation of programs supported by the Fund and the most important of these principles is the principle of National ownership.

National ownership is the responsibility of officials in the country to formulate and implement programs through a negotiating process between the fund and officials in the country so that officials in the country feel that the programs are theirs and are for them but with the advice and follow-up of IMF officials The essence of national ownership is that IMF officials take into account the country's socio-economic conditions and the country's ability to implement reforms within the agreed time frame, especially in low-income countries where administrative capacity is very weak IMF provides technical advice to make sound decisions.

Conditionalities, when they are well-designed and amicably between the authorities in the country and the fund, can reinforce and strengthen national ownership. For this reason, the Fund has carried out numerous reviews of conditionality and its programs during the past twenty years because conditionality must go hand in hand with national ownership for the design and successful implementation of the supported programs by the IMF.

The relationship between national ownership and Conditionality is a complex and interactive relationship, while strong conditionality cannot compensate for weak national ownership, and therefore national ownership and conditionality are complementary.

In the 1980s, the IMF policewoman focused on macroeconomic policies, but with the increase in structural complexities in low-income countries that impeded growth and stability in these countries and as a result of the fluctuating global conditions that complicated the implementation of the reform programs and conditions imposed by the IMF on low-income countries, the Fund made several reviews on Its programs to increase the likelihood of program success and reduce risk.

The most important reviews for the IMF programs

1) Review 2000/1999

Conditionality was developing over time in the IMF, so an EFF established in 1974 an expanded fund to address serious imbalances in the balance of payments as well as establishing the SAF Structural Adjustment Facility and after IMF establishing the ESAF in the 1980s after it became involved with low-income countries and the explicit purpose of these facilities was It is to reduce the severe structural imbalances in the LIC that suffer from low growth rates and low per capita income.

However, these programs did not give the expected results, but rather they exacerbated the economic and social situation in low-income countries and accused the International Monetary Fund that it exceeded the limits of its powers by using its financial influence to dictate policies in its favor. It was also questioned that these programs did not take into account the ability of Local authorities to implement them and their capacity mobilize political support for them, which raised suspicions about the unreality of the design of these programs and their suitability to the conditions of these countries.

Therefore, critics demanded the IMF policies to simplify the conditionality system and give national ownership a greater role in programs and a more efficient division of programs. To correct these gaps, the IMF revised the conditionality system in the year 2000 by introducing the National ownership for poverty reduction strategy PRS through the PRGF Poverty Reduction Facility established in 1999 to succeed the ESAF facility in order to be an effective concessional lending tool that responds to LIC requirements. That is why the design of this facility should take into account the nature of LIC economies, their needs for growth for the benefit of the poor, while the IMF acknowledging the relationship between macroeconomic policies, growth and poverty reduction policies.

As a result of these reforms in the context of Poverty Reduction Facility-supported programs, they have raised spending on health and education on the assumption that they have a significant impact on economic growth, and capital spending such as vital infrastructure and economic governance has increased to boost growth (the IMF role in LIC /Domenico Lombardi 2005).

2) 2010/2009 Reviews

For the improvements in conditionality in the Fund's programs for the LIC in 2010, it was the result of the pressures resulting from the 2008 financial and economic crises and the fuel price shocks of 2008, which caused the LIC's demand for IMF funds to increase significantly and unprecedentedly.

Here, the IMF is satisfied that the financial support provided by the Fund should be made more flexible to double the limits of access to concessional lending, which required the redesign of the Fund's concessional facilities.

For this purpose, the new poverty reduction growth trust PRGT structure was created as a unified facilitation framework this facility is characterized by its duration, funding and adaptation needs, and conditionality condition.

The proposed architecture comprises three new concessional lending facilities and one non-financial instrument :

• *The Extended Credit Facility (ECF) succeeds the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for providing medium-term support to LICs with protracted balance of payments problems.*

• *The Standby Credit Facility (SCF) provides financing to LICs with short-term balance of payments needs, similar to the Stand-By Arrangement (SBA).*

• *The Rapid Credit Facility (RCF) provides rapid low-access financing with limited conditionality to meet urgent balance of payment needs.*

• *The Policy Support Instrument (PSI) remains the Fund's non-financial policy support tool, and can facilitate access to the SCF and RCF, if needed* (A New Architecture of Facilities for Low-Income Countries 2009)

The aim of these reforms was to make these facilities more flexible and responsive to LIC needs to reduce the negative impact of the fluctuations of the global economy on them by providing more effective support to meet external and internal shocks and short-term needs

3) Reviews 20018 /2017

These recent reviews recommended the need to improve the realism of expectations and their suitability with low-income countries to achieve the goals of the IMF programs and work to increase the debt sustainability of low-income countries, enhance the quality of financial consolidation, and improve the adaptation of structural conditions.

Poverty reduction and growth strategies are used in IMF-supported programs to (1) link proposed program policies with the member's poverty reduction and growth objectives, (2) preserve national ownership of the poverty reduction strategy process, and (3) provide flexibility in scope and coverage to reflect particular country circumstances (IMF WEBSITE).

3. Main analytical tools and rules developed by the IMF to orientate macroeconomic policies

One of the most important tools the International Monetary Fund uses to help low-income countries overcome imbalances in their macroeconomics and raise their levels of development is to control the general level of government debt so that it remains within reasonable limits of public debt. It also uses fiscal rules to reduce debt and the budget deficit and these rules You will view it in more detail later in this chapter.

External debt is necessary for low income countries, due to its great need for development, but this debt and debt service exceeded the permissible threshold as it became a burden on the budget and the resources of these countries.

The large debt service has depleted the resources of LIC, which affects the growth in these countries and reduces their growth rates due to their reduction in public investment.

Where it was found that each increase by one percentage point in debt service as a percentage of GDP leads to a decrease in public investment by about 0.2 percentage points.

A study conducted on African countries indicates that the relationship between government debt and real GDP is weak when the debt is less than 90% of GDP, but if it is above 90% of GDP, this reduces growth rates by one percentage point (Public debt, economic growth and inflation In African economies 2016).

Therefore, high standards of debt constitute a danger for growth because they hold back growth and debt burden hypothesis   indicates debts that are detrimental to growth when the nominal value of external debt exceeds 50% of GDP (Public investment and external growth in external debt in 2003).

This great risk that the debt burden poses to sustainable growth in low-income countries push many development experts and the heads of these countries are calling for the cancellation of this debt because it continues to drain the resources of these countries there will be no development.

3.1 Controlling public debt level

In the face of the public deficit in the budget and external and internal shocks, governments in low-income countries facing a great challenge how to get loans to finance this deficit and face these shocks.

Governments have resorted to several options for financing the deficit These options are borrowing, which is two types, either borrowing from the domestic market (banks and investors) or borrowing from external market (governments, financial institutions, banks). It can also print money, selling assets, or paying through Increased arrears.

But each of these options has risks as financing through the central bank’s proposal leads to falls for net treasury status and increases the external imbalance without additional foreign reserves, which leads to a decrease in foreign exchange and a decrease in net foreign assets.

As for borrowing from banks or private individuals, they weaken private investment due to competition (crowding out effect), especially since the banks in LIC prefer lending to the government rather than lending to the private sector because lending to the government is guaranteed of repayment with large interest rate and short duration.

Also, excessive borrowing from domestic and broad is rapidly increasing public debt and the country may enter a debt crisis, which weakens its credit capacity.

Ricardo said that the government deficit does not affect the overall economy in the long term, assuming that the increase in government expenditures or a reduction in taxes will lead to an increase in private savings in the same proportion. Thus, borrowing to finance the budget deficit does not affect public investment in the long term because there will be an increase For future taxes in order to repay this borrowing and consequently the result is that public investment will not increase due to borrowing, but a number of empirical studies have denied the importance of radical equivalence theory for developing countries (Philippe Beaugrand, Boileau Loko, and Montfort Mlachila 'May 2002).

The most important challenges for the low-income countries is they cannot access to the international financial markets because of their weak credit capacity which made it dependent to a large extent on foreign financing between countries or multilateral organizations such as the International fund monetary and world bank but the limited access to foreign aid and external borrowing and the existence of emerging securities markets that may lead to these countries To resort more and more to local financing.

1) Domestic Debt

Most researchers focus on external debt and neglected domestic debt until recently, despite its potentially significant impact on the government budget, macroeconomic stability, loans to the private sector, the development of the local financial market, and overall growth.

Proponents of domestic debt praise its importance and positive impact on growth and savings and its significant contribution to the development of the financial market and question the scheduling of policies that prevent domestic debt and say that a shortage of domestic debt may be an impediment to development for the financial market in countries where the size of domestic debt is small and capital markets are also underdeveloped , Adoption of zero domestic debt policies may complicate exit from dependence on loans and foreign aid

Domestic debt markets can help boost financial and financial markets, increase private savings and stimulate investment. For example, government securities are a vital tool for indirect monetary policy operations, and they can also help banks manage their liquidity effectively, and reduce central bank intervention that could distort the financial sector.

A study of 66 countries with low-income countries 1979-1993 found that domestic debt was less expensive to finance the budget than foreign debt. Another study at 73 after 1990, Hauner2006 found that domestic debt begins to harm financial development when levels are too high, although this study excludes low-income countries whose levels of domestic debt are usually low (S.M. ALI ABBAS and JAKOB E. CHRISTENSEN June 2007).

However, domestic debt also has many negative impacts, among which is the crowding out of private investment by containing private savings that would have been directed to investing in the private sector as it raises the cost of capital, and diminishing the demand for private investment also.

The accumulation of domestic debt makes them absorb government resources to a large extent, and this is what drives them also to crowd out public investment and social spending that serves the interests of the poor and also the accumulation of large domestic debt also places debt sustainability in danger for the low-income countries that are already suffering from large external debt.

In low-income countries, domestic debt is mostly short-term, but governments may resort to extending it continuously, because of its continued need for it or its inability to pay these debts. This increases the domestic debt service, which may force the government to print the currency in order to pay the accumulated local debt, which leads to more inflation (Mohamed 2009). Worse than this, if the extension period is prolonged, the banks will not finance private investments and will monopolize their funds to lend to the government because they prefer a large easy profit from the government (Ibrahim AYUBA K., Shazida MOHD KHAN 2019).

According to some writers, there was little academic and political interest in understanding the potential relationship between domestic debt and economic growth in low-income countries as a result of the lack of good data on the size of domestic debt in low-income countries.

Many governments in low-income countries resort to borrowing from the local financial market to overcome the budget deficit, due to their limited access to international financial markets or the difficulty of obtaining concessional loans from international lenders such as the International Monetary Fund.

Financial systems in low-income countries are considered underdeveloped system, so they are an obstacle to establishing effective domestic financial markets that governments can benefit from in a rational and effective way in the time of distress, because it is noted that the interest rates applied on the governments in the local financial market in low-income countries are much greater than the interest rates applies to concessional loans in the external market and also the local debt are mostly at short-term while the concessional loans are provided on long-term basis.

For example, countries eligible for the PRG program such as countries with economies in fragile or affected by natural and health disasters, they can benefit from financing ECF and SCF programs with a zero interest rate at least until 2021 with a grace period of 5 years and 4 years, respectively, and a final maturity of 10 years and 8 years Respectively (IMF website).

Therefore, it is surprising that governments borrow from the local market in light of the opportunity to obtain concessional loans from external market.

The prevailing belief is that the accumulation of domestic debt in low-income countries has a negative impact on private investment and the sustainability of public debt and thus negatively affect the growth and poverty reduction programs.

For the impact of domestic debt on Private Sector Credit, Jakob Christensen (2004) found significant support for the crowding out hypothesis; on average across countries, an expansion in domestic debt of 1 percent relative to broad money causes the ratio of lending to the private sector to broad money to decline.

Government lending from the local financial market, May reduce credit available for private sector for a given money supply expansion , which leads to raising real interest rates and thus reducing private investment as a result of direct overcrowding on savings and liquidity in the market. Market by governments, as well as banks in low-income countries, prefer to lend government rather than the private sector to reduce their risk.

2) External Debt

Throughout the history of global crises, low-income countries suffer more than other countries of the world from the shocks of these crises, such as the current global crisis, the Corona pandemic crisis, as these crises show the weakness of the financial structure of these countries and their urgent need for donations and external debt as a paramedic necessary for them to operate as do the artificial respiratory system with a Corona patient!

Low-income countries face significant fiscal challenges because of the weak structure of their volatile economies and their sensitivity to external shocks, as a result of their low income, these countries depend on their revenues on external debt, but their inability to pay these debts causes an accumulation of external debt service that enters them in a vicious circle of borrowing to pay debts, which it leads to an increase in debt again.

This payment process creates many problems for many low-income countries because the debt service is much greater than the amount of the original debt, because of the high interest rate therefore it imposes a number of restrictions on the growth strategy of these countries and drains a lot of their fiscal resources and often low-income countries are forced to take more debt because it is in the development stage.

Benedict Clements (et al, 2003) *suggested that foreign borrowing has a positive impact on investment and growth of a country up to a threshold level but external debt service can potentially affect the growth as most of the funds will go in the repayment of the debt rather in the investments* (Benedict Clements, Rina Bhattacharya, and Toan Quoc Nguyen December 2003*).*

Debt service can have a significant negative impact on growth in low-income countries (as opposed to the total debt stock) and this is the main channels on how accumulation of debt and service payment may affect long term growth:

1/ The accumulation of external debt service makes debt like a snowball, so the accumulation of debt burdens weighs heavily on the budgets of low-income countries and enters them into a continuous state of permanent deficit, and thus the state resorts to borrowing from abroad in order to cover the budget deficit and thus enters into a vicious circle of debt in order to pay the accumulated debt service This weakens the country's credit capacity in the long term, canceling the role of external debt to stimulate the growth process

2/ As high debt service can crowd out public investments by changing the composition of public spending, because it absorbs the resources of the annual government budget and this causes a large budget deficit that is difficult for the government to finance this deficit and thus resort to austerity policy targeting public expenditures in order to pay the debt service and this has a negative impact on Infrastructure and human capital, which reduces growth within the country and also the High debt service can raise the government's bill, and this increases the public deficit, which reduces public savings, which leads to higher interest rates, which reduces private investment, which reduces growth.

Public spending must be one of the most important determinants of economic growth and social welfare, because it includes spending on health and education, while public investment in infrastructure is the key to a boom in private investment.

Some researchers have found that debt service in low-income countries affects total government spending with the exception of defense spending. Mahdavi (2004) finds *"support for the adverse effect of the debt burden on "capital expenditure" in the full sample and in the Middle East-North Africa and sub-Saharan Africa subsamples where the debt burden was relatively high. Among components of "current expenditure," increased debt burden shifted the shares against "nonwage goods services" and "subsidy and transfers" while leaving the share of politically sensitive category of "wages and salaries" unscathed in most cases."*

A study on 35 sub Saharan countries showed that debt service restraint shifts spending away from the social sector with a similar impact on health and education. In a study conducted on 35 sub-Saharan countries between 1975 and 1994 on the effect of external debt service (Augustin Kwasi Fosu, 2007).

In the case of Nigeria, the negative impact of debt service on public spending is evident in the year of 2000, the government allocated $ 1.9 billion to service debts, and this amount is four times greater than the federal government allocated to education and is twelve times greater than it allocated to health, and in 2001 it allocated 2,13$ billion in debt service is six times greater than education spending and seventeen times health spending (Muzna Gohar, Niaz Ahmed Bhutto, Falahuddin Butt 2006).

The case of Nigeria shows the ugliness of depleting the public debt service of the resources of poor countries, even though Nigeria is an oil producing country, but the situation is probably worse for low-income countries.

In analyzing the impact of foreign debt and external debt service on savings and   investment expenditures in Pakistan, Imran Sharif (2009) find the external debt has a negative impact on national savings and that external debt has a positive impact on national investment activity. This indicates the external debts were used for consumption, which had a negative impact on public savings, but was allocated inefficiently, and this positively affected public investment, but it did not affect economic growth (Imran Sharif Chaudhry, Shahnawaz Malik & Muhammad Ramzan, 2009).

The reason for the accumulation of debt burden is the failure of low-income countries to pay the installments agreed in debt contracts for various reasons, including what they may control, and some that are not controlled, such as external shocks and unexpected disasters, and therefore the failure to pay increases the debt service which acts as vacuum of the country's resources.

In order to overcome the problems of reimbursement, the governments of low income countries enter into negotiations with international funders to reschedule debts, which often results in commitments to reduce public spending, which is first victim is education, health and infrastructure, and this has a direct negative impact on the human factor, which weakens the productivity and affects long-term growth.

3.2 Fiscal rules

In the past, the use of fiscal rules as a method of fiscal policy was limited to developed economies, but in the mid-nineties increased use of these rules by developing countries EMDEs and now most of the countries applying these rules are became developing countries.

At the end of 2012, the 76 countries with one or more fiscal rule, 28 were developed economies and 48 were EMDEs . This map below documents the spread of fiscal rules in the developing world.

Most the low-income countries, started to work with fiscal rules in 1998, 2000 and 2002, respectively, such as the West African Monetary Union (WAEMU) and the Central African Economic and Monetary Community (CEMAC) where the primary purpose of these rules was to facilitate the convergence of financial policies within monetary unions in general(Elva Bova, Nathalie Carcenac, and Martine Guerguil, 2014).

There are two forms of enforcing fiscal rules :

1/ The supra-national fiscal rules, which are applied by the monetary unions and imposed on their member states to achieve specific goals, such as the rules imposed by CEMAC on its member states and inspired by the European Union rules.

2/ The national fiscal rules, which are applied by all countries of their will and according to their fiscal status and goals.

The IMF supports countries to use fiscal rules in low-income countries and provides them with technical assistance to ensure that these rules align with their goals and ensure their implementation, as it see the benefit of the fiscal rules for these distorted economies.

Fiscal rules are used as a tool for economic stability, as fiscal rules reduce the extent of the business cycle by curbing government spending during prosperity and working to create buffer savings that are used in times of crisis also Most fiscal rules work to sustain public debt and keep it within reasonable limits that serve development and fiscal stability.

In order to achieve these complex goals, most governments use more than one rule, but the most important criterion for choosing these rules is that they are simple and easy to communicate with the public.

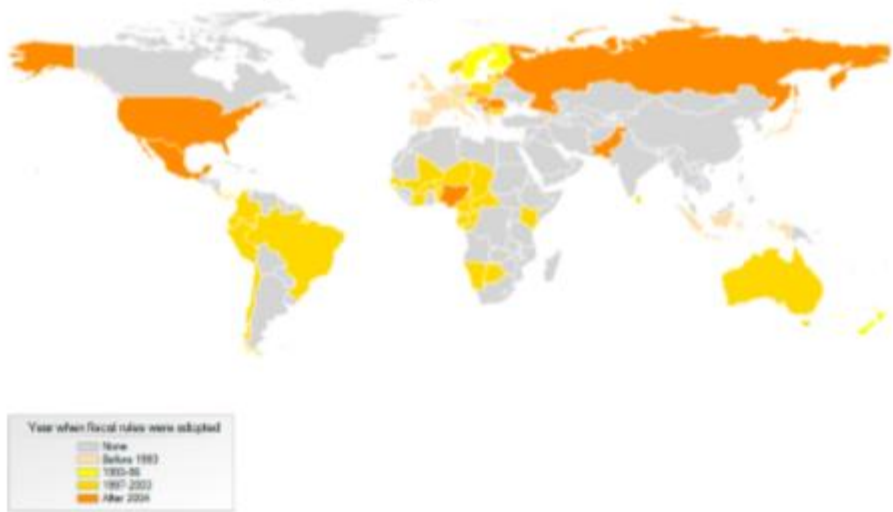
The use of financial rules is not without some risks, especially for low-income countries with weak administrative efficiency and the great need for further growth. For example, fiscal rules leave less room to adapt to shocks and low-income countries are subject to many difficult-to-predict and external shocks such as environmental disasters, pandemics, fluctuations of the global economy and its unstable political and social conditions.

Fiscal rules also may reduce government spending to the detriment of vital sectors such as spending on infrastructure, health, education, and social spending on the poor. These are things that hinder long-term growth and increase poverty rates and severity in these countries.

Undermining transparency due to incentives for creative accounting is one of the concerns of using fiscal rules (Kumar, 2009).

In this part we will be exposed the fiscal rules in detail to know their characteristics, benefits and drawbacks, and we will take a one of the low-income country as a empirical case of applying financial rules.

Figure 1. Adoption of Fiscal Rules



Note: Fiscal rules in place in 2012.
Source: IMF Fiscal Rules Database (2012).

1) *FISCAL RULES : definitions & characteristics*

Fiscal rule is defined as a long-lasting constraint on fiscal policy through numerical limits on budgetary aggregates (defined as standing commitments to specified numerical targets for some key budget and/or debt aggregates and to some procedures) (IMF 2009).

The theoretical literature defines a fiscal rule as a stable policy reaction function; that is, a formula that links fiscal instruments (for example, tax rate, expenditure, borrowing) to macroeconomic indicators in an optimal way. The aim of the Fiscal rules is to maximize the welfare of society by working to stabilize the macro economy by adjusting the financial position during the business cycle to ensure debt sustainability and meet budgetary constraints (Howe to select fiscal rules Joint Bank-Fund Library 2018).

The criterias

The "good" fiscal rules are generally selected on the basis of desired features initially proposed by Kopits and Symansky (1998). These criteria aim to ensure the rule efficiency and to be able to correct fiscal policy biases and ensure economic stability.

• *Sustainability: Compliance with the rule should ensure long-term debt sustainability.*

• *Stabilization: Following the rule should not increase (and might even decrease) economic volatility. Economic stabilization requires that the rule lets automatic stabilizers operate and/or allows discretionary countercyclical changes in taxes or expenditures.*

• *Simplicity: The rule should be easily understood by decision makers and the public.*

• *Operational guidance: It should be possible to translate the rule into clear guidance in the annual budget process. Budget aggregates targeted by the rule should be largely under the control of the policymaker.*

• *Resilience: A rule should be in place for a sustained period to build credibility, and it should not be easily abandoned after a shock.*

• *Ease of monitoring and enforcement: Compliance with the rule should be easy to verify, and there should be costs associated with deviations from target((how to select the fiscal rules IMF 2015)*

There is no perfect number of fiscal rules that fiscal authorities can operate in the same period but the most important pillar of a good fiscal framework is to choose the rule that reduces the need for tradeoff between the criteria's, and also take the country condition in the account, but the adopting of multiple rules for multiple goals, could lead to overlapping and opposing objectives.

2) *Types of Fiscal Rules*

Four main types of fiscal rules can be distinguished based on the type of budgetary aggregate that they seek to constrain, The rules have different properties with regard to the objectives, operational guidance, and transparency.

I-Budget balance rules

A-The overall balance rules

The overall balance rules impose a ceiling for the public deficit They are set in nominal terms (that is, without adjusting for the cycle) and in percent of GDP, which is easy to calculate, monitor, and implement, and it is effective in supporting the sustainable public debt policy, but it does not contain good economic stability features Long-term growth prospects can suffer if the level or quality of public investment is negatively affected

A variant of the overall balance rule called the "primary balance rule," excludes interest of debt from the balance, targeting a primary balance can put the debt on an explosive path if the rule threshold is not reassessed regularly

B-Cyclically Adjusted Balance rules

Cyclically Adjusted Balance Rules impose limits on the overall balance, correcting for the effects of business cycle fluctuations on revenue and expenditure (Fedelino, Horton, and Ivanova 2009).

The Cyclically adjusted balance rules aim to provide better economic stability than the nominal budget balances rules by separating expenditure and revenue and allowing the automatic stabilizer to operate freely

These rules can achieve stability in the expenditure path even though they do not compel the government to cut spending in times of deflation. However, the ability of these rules for the stability is limited by two factors.

1/ *Automatic stabilizers can be small in some countries; for instance, when the tax system relies predominantly on customs revenue.*

2/ Cyclically-adjusted balance rules do not allow changes in the fiscal stance. Once a country has achieved its targeted cyclically-adjusted balance, complying with the rule requires that the fiscal position remain constant over time (how to select the fiscal rules IMF 2015).

C-The golden rule

Golden rules impose a ceiling on the current balance deficit (overall balance without capital expenditure). Borrowing is only allowed for financing capital expenditure Current spending must be financed from revenue. This rule is considered pro-growth and more consistent in equity between generations because it entitles the burden of financing public investment projects from this generations to future generations because they are the real beneficiaries from these public investments

Excluding capital expenditure from the objective makes it possible to borrow for investment without restrictions, and that can create risks in debt sustainability. It may also expose these projects to accounting manipulation and the incentives for cost-benefit analysis can be reduced (Balasson and Franco, 2000).

D-Over-the-Cycle Budget Balance Rules

What distinguishes this rule from other budget balance rules is not the budgetary aggregate it constrains but rather how the limit constraining the budgetary aggregate is assessed. Instead of being defined and assessed annually, the limit is typically set and assessed as an average over the years encompassing all stages of the business cycle, including both expansionary and contractionary stages.

II- Expenditure Rules

Expenditure rules set limits on total, primary, or current spending, and the limits apply to nominal or real expenditure. They are typically set in absolute terms (levels) or growth rates and occasionally in percent of GDP, with a time horizon that typically ranges from three to five years (Lledó and others, 2017).

III-Revenue Rules

Revenue rules set floors or impose ceilings on government’s income proceeds. They are relatively rare in comparison with the other types of rules. Some countries impose floors on revenues to increase resources by increasing taxes in order to implement certain policies as a country belonging to the West African Economic and Monetary Union (WAEMU). Other countries may impose a ceiling on revenues in order to reduce the tax burden on citizens. setting a floor or impose ceilings for revenues may hinder efforts for total stability, especially if the floors are expressed in the level and not in the percentage of GDP, revenue floors may require increasing taxes in bad times and revenue ceilings can limit government savings in the good times (Joint Bank-Fund Library 2018).

IV-Debt rules

Debt rules set an explicit limit or target for public debt in percent of GDP. This type of rule is, by definition, the most effective in terms of ensuring convergence to a debt target. However, it does not provide sufficient guidance for fiscal policy when debt is well below its ceiling (Carlo Cottarelli December 16, 2009).

3) Rules for Developing Countries

The economies of low income countries are experiencing a lot of volatility, which makes their revenues volatile as well, as a result of several factors, -according to the few studies that have been conducted on fiscal rules in low income countries- as the larger and longer expansions of the business cycle of this countries (Hausmann, Panizza, and Rigobon, 2006) and Also the terms-of-trade shocks (when commodity or trade constitutes a large share of the tax base) and Natural disasters, and volatile external financing flows and structural transformations of the economies of these countries(Joint Bank-Fund Library 2018) .

As result of this structural problems we cannot apply the previous rules in these countries without modification and taking into account each country and its economic situation and the most challenge for low income countries is the difficulties of stabilizing public spending in face to the Major development needs for infrastructure, such as investment in health and education...

We can divide the low income country to types: raw material export country and non-exporting country.

I-Countries exporting raw material

The goals of the fiscal rules in exporters commodities countries is the stabilization and public debt sustainability by taking into account two points:

1/ Commodity price fluctuations in international markets jeopardize the stability of these countries' economies.

2/ The issue of resource depletion is the biggest challenge facing countries with a relatively short reserve horizon, and therefore the primary purpose of these financial rules is to define sustainable spending and savings for current and future generations to preserve wealth over time and ensure equity between generations.

Fiscal rules for countries exporting commodities :

A- Revenue split rules: It is placing a certain amount or percentage of revenue on the side of savings in order not to be drained as expenditures for the same fiscal year and keep them for times of shortage.

B- Price smoothing rules: it aimed to split revenue by calculating the reference price of the commodity, if actual resource revenue exceeds resource revenue with the reference price of the commodity, the difference between the two prices is saved for periods of lower commodity prices in the future and this rule works to reduce revenue fluctuations in the short term.

This group of rules separates public spending from volatile revenue sources in order to reduce fluctuations in the fiscal stance and the stability of the economy as a whole but the weaknesses of these two rules, is they only care about the revenue and savings and do not place restrictions on borrowing and this exposes these countries to future debt crisis through unlimited borrowing to finance the annual budget deficit resulting from the increase in spending.

C- Structural balance rules: These rules correct the economic situation and commodity prices together, and this rule may be seen as a complex case of the rule of Price smoothing rules, but it differs greatly from it, as it places restrictions on total spending and not only spending funded by revenue but spending funded also from borrowing.

D-Expenditure rules: They are easy to understand and apply their primary goal is to limit spending in times of good price by limiting the government spending growth in a percentage of non-source GDP.

Expenditure rules and structural balance rules may achieve economic stability more than the previous two rules because they limit the spending to reduce the annual fiscal deficit, which is the first reason for excessive borrowing and economic volatility.

II-Low income country not exporting commodities

A-Simple expenditure rules

Low-income countries that do not issue raw materials relies on financing their expenditures and budget deficits on grants and external loans, so their revenues are volatile and therefore the best fiscal rules that are compatible with them are the simple spending rules because they provide a better shield for revenue fluctuations (Cored and others, 2015) and as we have seen previously the most of other rules do not protect the public spending in a way that is consistent with the large needs of the lack of development in these countries as more infrastructure.

Despite the stability of spending, the economic environment in low income countries has remained volatile, as the fiscal policies in these countries tend to be cyclical even though, according to some experimental studies, it could have been countercyclical to the economic cycle, and experts refer this bias to two factors:

1/ Imperfect access to international credit markets and lack of financial depth prevent developing countries from borrowing in bad times (Konuki and Villafuerte, 2016).

2/ Good times encourage fiscal profligacy and rent-seeking activities tries with weak political institutions (how to select the fiscal rules IMF, 2015).

Therefore, as a conclusion fiscal rules can correct this cyclical bias if it is the result of fiscal profligacy in times of prosperity by imposing restrictions on spending, for example, but if this bias is caused by ineffective financial markets, fiscal rules cannot be the only solution.

4) Fiscal rules used by IMF and countries

In the reality, most fiscal rules target the revenues, total debt stock, the annual budget deficit or specific categories of expenditure.

Fiscal rules combination

Over time As a result of the multiplicity of goals and the complexity of the fiscal situation of countries, most countries have come to adopt a set of rules closely related at the same time and may adopt national and supranational rules, although this may cause many complications and deviations from the goals, especially in low-income countries with weak experience but technical assistance provides by the International Monetary Fund may help this countries to choose the appropriate rules for them.

The table below shows that most countries are using more than one rule at the same time.

Countries and Territories[7] with Fiscal Rules by Income Category (2014)

Type of Rule	Low-Income	Lower-Middle-Income	Upper-Middle-Income	High-Income	Total	Examples
Budget Balance Rules	8	12	16	33	67	Benin, Brazil, Cameroon, Chile
Debt Rules	10	12	16	30	66	Indonesia, Jamaica, Liberia, St. Kitts and Nevis
Expenditure Rules	0	1	8	31	40	Mongolia, Namibia, USA
Revenue Rules	1	0	0	4	5	Australia, Kenya
Total Countries and Territories with at least one Fiscal Rule	10	13	22	39	84	
Percentage of total Countries and Territories with at least one Fiscal Rule	28%	23%	40%	52%	39%	

Note: countries can have more than one fiscal rule in place.
Source: IMF (2014) and World Bank (2014).

Source (Nikhil Ray Agustin Velasquez Iyanatul Islam, 2015)

5) Role of Fiscal Rules for sustaining Growth : Some New Evidence

One of the most important challenges facing experts and policy maker of the International Monetary Fund and the Lowe income countries is the extent to which financial rules are compatible with low-income countries, do fiscal rules support growth, contribute to stabilize public debt and reduce economic fluctuations? Are they suitable to absorb the many shocks suffered by low-income countries?

In light of the few writings on the role of financial rules in the development Lowe income countries, I will review some of the results of one of the studies Nikhil Ray Agustin Velasquez Iyanatul Islam (2015) that also compares the Low income countries withe Upper-Middle between low-income countries that adopt fiscal rules and low-income countries that do not adopt fiscal rules. Income countries through some economic indicators that relate to the growth of per capita GDP and rates Public debt over a 16-year period from 1997 to 2013.

The growth per capita data is from the World Bank's (2014) World Development Indicators, while the central government debt data is from the IMF's (2014) World Economic Outlook Database.

Fiscal Rules, GDP Growth per Capita and Government Debt (1997-2013): Statistical Tests of Significance for Differences in Means

Growth per Capita (% Change)	With Fiscal Rules	Without Fiscal Rules	T-Statistic	P-Value	T-Critical Value
All Developing Countries	2.41	2.48	-0.25	0.40	1.65
Low-Income Countries	2.34	1.89	0.69	0.25	1.65
Lower-Middle-Income Countries	2.79	2.66	0.41	0.34	1.65
Upper-Middle-Income Countries	2.23	2.72	-1.00	0.16	1.65

Central Government Debt (Debt-to-GDP Ratio)	With Fiscal Rules	Without Fiscal Rules	T-Statistic	P-Value	T-Critical Value
All Developing Countries	66.18	64.22	0.62	0.27	1.65
Low-Income Countries	98.95	76.19	2.34	0.01	1.65
Lower-Middle-Income Countries	67.87	62.61	1.11	0.13	1.65
Upper-Middle-Income Countries	50.01	57.14	-2.38	0.01	1.65

Source: Authors' calculations based on World Development Indicators (2014).

Source: Nikhil Ray Agustin Velasquez Iyanatul Islam (2015)

From a look at the growth of per capita GDP, we can notice that low-income countries with Fiscal Rules are a little better than the LIC Without Fiscal Rules, but it is not significant (the P value is 0.25) on the contrary, the all developing countries without fiscal rules are a little better than the countries with fiscal rules but this difference is also not significant (the P value is 0.40). We can see the upper middle-income category has a 0.5 per cent better as difference but also is not significant the P value is 0.16. None of these differences in mean growth per capita is statistically significant.

In terms of central government debt as measured by debt-to-GDP ratio the All Developing Countries without fiscal rules has less debt than the countries with fiscal rules but the difference is not significant (the P value is 0.27). For the LIC without fiscal rules the level of debt is less than the LIC with fiscal rules and the difference is statistically significant (P Value is 0.01).

Low-income countries with fiscal rules had debt levels of 99 per cent of their GDP on average, whereas those without fiscal rules had an average of 76 per cent of their GDP. On explanation might be that nine of the 10 low-income countries with fiscal rules are part of the Heavily-Indebted Poor Countries (HIPC) initiative, so their existing central government debt in the 1990s was very high. Since then, the HIPC initiative only partially wrote off these governments' debts. Fifteen of the remaining 24 low-income countries without fiscal rules were part of the HIPC initiative, which may reduce the debt burden in that subset (Nikhil Ray Agustin Velasquez Iyanatul Islam, 2015).

For the Lower-Middle-Income Countries we can see the countries with fiscal rules has more public debt than the countries without fiscal rules but the difference is not significant (the P value is 0.13).

In the upper-middle-income category the countries without fiscal rules tended to accumulate 7 per cent more central government debt on average and the difference is significant (the P value is 0.01). It may perhaps reflect the fact that more developed economies have easier access to external and internal finance (Kawai and Morgan, 2013). They can borrow more easily and thus have higher debt levels if unconstrained by fiscal rules.

3.3 Country Case Examples

Here we will take the Cameroon as an example to know the impact of fiscal rules on the long-term growth and debt sustainability in this country, Cameroon is a member of the Economic and Monetary Community of Central Africa (EMCCA,) sharing a common currency, the CFA Franc, with the Central African Republic, Chad, Equatorial Guinea, Gabon and the Republic of Congo. The EMCCA, Member States convergence criteria are inspired by the European Union's Maastricht Cameroon is a small economy and a commodity-exporter, especially oil. It is using the fiscal rules which was imposed as criteria by (EMCCA,) in 2002 as budget balance rules and debt rules for convergence as well as to guide governments' members in the union to prioritize some aspects of spending related to the development goals.

Cameroon is an oil exporter, so oil plays a major role in the government budget, at around 15% of GDP Since 1985 Oil revenue has been subject to fiscal rule rules to take into account depleting reserves and the volatility of oil prices.

The 2002 EMCCA, convergence criteria are outlined in the table below.

"Since January 2002, the main criteria (first row) provide that: (i) the ratio of basic fiscal balance to GDP must be positive or null, (ii) the debt ratio must not exceed 70% of GDP, (iii) countries should not accumulate arrears of interest to both internal and external debt, (iv) and finally the maximum inflation rate is 3%." (Nikhil Ray ,Agustin Velasquez,Iyanatul Islam, 2015)

Cameroon used two kinds of fiscal rules since 2002 : the Budget balance rules and Debt rules.

The CEMAC Convergence Criteria

	Ceiling	Time-period for measurement	Penalties	Notes
Balanced Budget Rule (since 2002; modified 2008)	Revenue minus expenditure must be in balance or surplus	12 months	None	Expenditure excludes foreign-finance capital expenditure; Revenue side excludes grants
Debt Rule	70 per cent of current GDP	12 months	None	
Inflation Target	3 per cent	12 months	None	

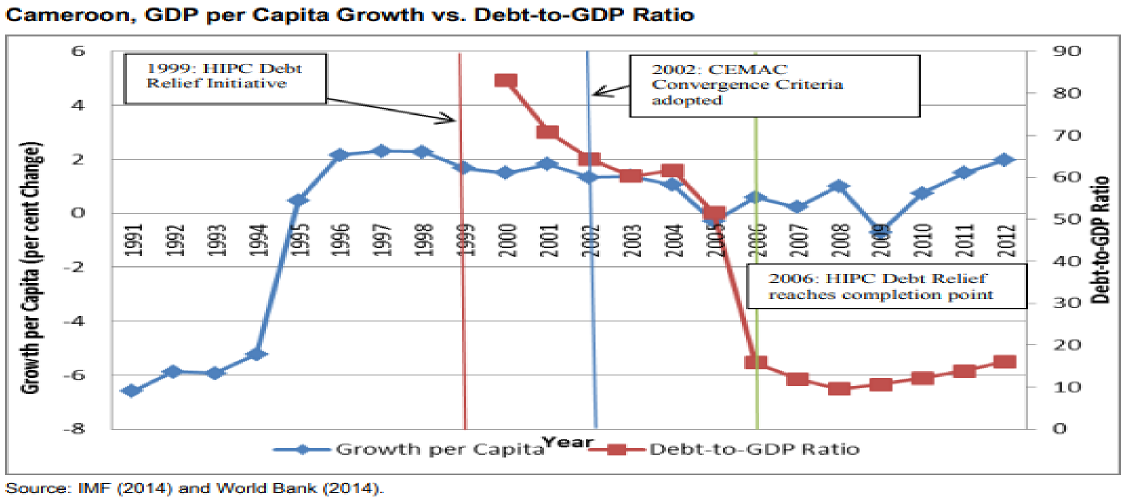
Source: Leke (2012) and IMF (2014).

Source: Nikhil Ray, Agustin Velasquez, Iyanatul Islam (2015)

The International Monetary Fund imposed an overall budget balance rule on Cameroon between 2000-2004 as part of the Poverty Reduction Facility and set zero as a target for budget deficits without oil resources.

In 2008 the EMCCA, Commission introduced two supplementary criteria. First, the basic structural fiscal balance as a proportion of nominal GDP should be in balance or surplus. This rule, as we have seen, it is used to correct the economic situation of the country and correct commodity prices, and the aim here is to reduce the volatility of government revenue by introducing average oil prices within three years in accounting for it also places restrictions on spending and reducing the government deficit. Second, the non-oil basic fiscal balance as a proportion of non-oil GDP should be in balance or in surplus. This rule partially protects government finances from volatility in the price of oil and also reduces expenditures, and this reduces the government deficit (Nikhil Ray Agustin Velasquez Iyanatul Islam, 2015).

It is known that this rule is easy to apply and monitor and good for maintaining sustainable public debt but it limits government spending, which weakens public investment, which negatively affects growth in the long term. This is what happened in Cameroon, where the growth was limited, which we will see later with detailed data.



Source: Nikhil Ray, Agustin Velasquez,Iyanatul Islam (2015)

Growth in GDP per capita, it was negative until the mid-nineties, where it was in the range -2 and -5 to increased 1994 and 1995 from -2, -5 to 0.5 to continue above 2% for three years, before the CEMAC adopted its fiscal rules. Since then, it has remained mainly in a band between 0 per cent and 2 per cent, aside from 2005 and 2009 when Cameroonian growth per capita was negative. However, from 2010 to 2019 it increased slightly in the range from 3.08 to 3,65 (World Bank).

We can notice from the graph the Cameroon's debt was very large in 1999, when it exceeded 80% of the GDP, but after Cameroon benefitted from the Heavily-Indebted Poor Countries (HIPC) initiative in 1999, the debt took a low path in 2000 to continue in the same direction because of the Convergence Criteria adopted in 2002 so that the debt continues to decline to a level less than 20 % Of GDP, which is good for a low-income country but from the table below we can see the public debt has been attributed to the increase in recent years, and this is evident from the table above. It has taken an upward trend from 33.3 in 2016 to 41.5 in 2018.

Text Table 2. Cameroon: Public Debt
(In percent of GDP)

	Dec-16	Dec-17	Dec-18 (Est.)	Sep-19 (Est.)
	percent of GDP	percent of GDP	percent of GDP	percent of GDP
Public debt contracted and disbursed	**27.5**	**30.9**	**34.4**	**36.2**
External debt	20.4	22.9	26.3	27.2
Domestic debt	6.7	7.8	7.9	8.9
Publicly-guaranteed debt	0.3	0.3	0.2	0.2
SONARA debt	**2.4**	**2.6**	**2.8**	**3.1**
o/w external	1.5	1.9	2.1	1.7
Unpaid government obligations (float and arrears)	**3.4**	**4.1**	**2.3**	**2.1**
External claims to SOEs (ex-SONARA)	**0.0**	**0.0**	**0.0**	**0.0**
Total public debt	**33.3**	**37.7**	**39.5**	**41.5**
Domestic	11.0	12.6	10.8	12.5
External	22.3	25.1	28.6	29.0
Memo:				
Stock of contracted but undisbursed debt	*20.0*	*21.8*	*18.8*	*16.1*
Domestic	1.5	0.9	0.8	0.3
External	18.5	20.9	18.0	15.8

Sources: Cameroonian authorities, and IMF staff calculations.

Source IMF CAMIRON REPORT January 7, 2020

For the employment was vulnerable it is decreased gradually from 81 per cent to 75 per cent of the labor force, while the unemployment trend has been more erratic, swinging from 3.4 per cent of the labor force in 1995 to 8.1 per cent the following year, and then decreasing to 3.8 per cent in 2012 (Nikhil Ray, Agustin Velasquez, Iyanatul Islam, 2015).

Cameron compliance indicators for CEMAC fiscal rules

	Cameroon											
Criteria	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**
Mean annual inflation rate (≤ 3%)	+	-	+	+	+	+	-	+	-	+	-	+
The ratio of basic fiscal balance to GDP (≥0)	+	+	+	+	+	+	+	+	+	+	+	+
Arrears of interest to both internal and external debt (< 0)	-	+	+	+	-	+	+	+	+	-	-	+
The debt ratio (< 70%)	-	+	+	+	+	+	+	+	+	+	+	+

Source : BIKAI J. Landry/June 2015

Table 1: Evolution of the basic fiscal balance as a percentage of GDP in CEMAC

Years	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Cameroon	4,1	2,4	3,7	3,9	2,8	4,9	5,6	5,2	4,5	**3,3**	0,1	-0,4
CAR	**-0,8**	**-1,0**	**-0,5**	**-3,4**	**-4,0**	**-4,6**	**-1,1**	**-0,7**	**-1,7**	**-0,3**	**-0,9**	**-2,0**
Congo	1,5	-0,7	-7,2	1,0	4,9	17,4	17,8	10,2	27,3	**5,0**	25,5	19,8
Gabon	12,3	4,2	2,6	7,4	7,9	9,6	10,2	9,5	12,5	**8,5**	3,3	4,6
EG	8,5	15,9	12,9	13,4	11,4	20,9	25,7	20,7	17,6	**-4,2**	-5,5	1,0
Chad	-2,9	-2,2	-3,2	-1,7	2,1	1,1	3,8	3,6	4,5	**-8,4**	-1,6	2,5
*Number of states**	3	3	4	5	5	5	5	5	5	**3**	3	4
Oil GDP	4,54	4,20	4,36	4,67	6,07	10,00	11,66	12,06	15,87	**10,82**	14,79	18,37

Source : BIKAI J. Landry1 June 2015

Through all this information and a summary, we can observe that Cameroon was more CEMAC countries comply with the fiscal rules imposed by the Union through their best response to the rules of fiscal adaptation where the rules of budget balance were applied to reduce the budget deficit by imposing ceilings on revenues and expenditures and also in 2008 the CEMAC impose new rules to reduce fluctuations Revenues in by including oil revenue in the budget at an average price of three years, and oil revenue were also isolated to reduce spending.

Cameroon also used the debt rules imposed by CEMAC in the year 2002, and Cameroon was the best student of the Union in order to maintain a low level of debt, although Cameroon started reducing its debt since 2000 when It benefited from the HIPC initiative but maintained a sustainable debt level after that due to the fiscal rules.

Despite these fiscal rules, Cameroon had low levels of employment and did not achieve high growth rates, and this may be due to reducing public expenditures as a result of strict compliance with the fiscal rules imposed by CEMAC, which cannot let the deficit goes over 3% of GDP, and this causes the government to resort to reducing public investments. In general, such as spending on infrastructure and health education... This leads to limit long-term growth, and this is may be one of the drawbacks of supranational fiscal rules. Here, I will advise them to use national fiscal rules increase spending on public investments through deficits, but with great caution, with the selection of more efficient projects with compliance the flexible fiscal debt rules that limit the public debt.

This is what some researchers went to and some opposed it as Lossifiv and others (2009) they cited that Cameroon can finance by deficit more public investment, and more spending on human capital for long-term growth But some writers like snake et al 2013 express their concerns about following the path of financing public investment through deficit for more growth and they justify this by the weakness of the government's administrative capabilities and the inefficiency of public investment, but they prefer to comply with the fiscal rules imposed by CEMAC and they see this rules as a good way to prioritize government spending Related to the development goals.

4. Major criticisms against IMF approach (pro/cons)

There are some studies that have found that the intervention of the International Monetary Fund has a significant positive impact on low-income countries.

The International Monetary Fund notes that although there may be negative effects of adjustment policies on poverty due to the contraction of economic activity in the short term, it is expected that the poor will achieve more benefits in the long term as presented a study analyzing 86 low and middle income countries between 1982 And 2009 and which shows is evidence that the inclusion of poverty alleviation in the agenda of the International Monetary Fund has led to its desired effects This study says that the harmful consequences of the International Monetary Fund’s interventions die in the short term and found that the income is distributed more equally in countries that have spent many years dealing with the IMF and provide evidence of the role of the IMF’s programs in alleviating the severity of poverty in the countries where they were applied in (Doris A. Oberdabernig, 2012).

A study that was done on a sample of countries exclusively from the LIC over 30 years this countries dealing with the short and long-term impact of the IMF’s programs this study finds the IMF programs helped LIC sustain economic growth and boost resilience by building fiscal buffers, even though the size of the International Monetary Fund’s funding does not have a significant impact on economic growth. , and this may indicate the prominent role of the IMF’s political advice in building the institutional capacity of these countries, and the IMF financial support have had a significant positive impact on short-term growth when the LIC face imbalances or external shocks(Christian Mumssen, Yasemin Bal Gündüz, Christian Ebeke, and Linda Kaltani, 2013).

In another study conducted on the sample of low-income countries participating in the programs of the International Monetary Fund during the period 1989 and 2008, it found that the facilitated programs have had a positive impact in general on economic growth for a period of up to two years after the signing of the agreement, but the effects are due to other factors such as the initial economic conditions of the country Past growth performance, dependency on aid, debt, and recent history of participating in IMF programs and time period (Graham Bird and Dane Rowlands, 2017).

Despite all the evidence presented by researchers on the role of the IMF programs in economic stability and growth in the long run, these programs have a cost that may be large and painful, especially for the low income countries and the poor in these countries where the IMF interferes because the poor are the ones who pay the price first. Before others, the IMF's programs and their legitimacy have been exposed to a lot of criticism. Here we will show some examples.

A study conducted on the International Monetary Fund describes as a financial institution whose role is to preserve the interests of the rich industrialized countries it controls and also criticized the conditionality system in the IMF programs and secrecy that was surrounded by and also described conditionality as illegal and immoral to the fact that the IMF   provides the resources needed by the governments and asks them to do what they do not want, also the legitimacy is further undermined because conditionality is not a panacea. this study criticized the conditionality routine as merely copying the overlapping conditions in a country, regardless of whether they are appropriate to the local conditions of the country and concluded the IMF policies failed to promote economic growth (Conditionality from function and history/ Sarah Babb and Bruce, 2008).

Another study says that the size of benefiting from the IMF loans is greater when countries have a greater share in the IMF, just as rich countries like USA and European countries they have a major impact on the policies of the IMF because most of its senior employees in the IMF are their citizens and also found that increased participation in IMF programs It has a negative impact instead of larger loans it found also the participation in IMF programs has a negative impact on the rule of law and has an indirect negative impact on economic growth but that is difficult to demonstrate in a simple causal way .The moral hazard, according to the study, is that IMF loans may encourage governments to spend excessively and increase government bureaucracy. The conditionality system is detrimental to the growth and IMF programs also affect the size and structure of private credit markets. This study answers the question: Why do governments resort to IMF loans as long as they are bad for the economy growth ?? first The study says that IMF lending is bad for the economy, but it is good for governments, politicians. second IMF lending reduces GDP but increases government income .third IMF lending reduces growth in the short term, but it may raise growth in the long run, even though this study failed to find evidences for increase in the growth in the long term for at least for 5 years. According to the study, there are questions that can be raised about long-term growth, is it really due to the IMF programs? Or is it just a result of a serious will to reform the economic situation by governments in the long term? However, these answers require further studies (Robert j.Barroa, jong .wha leeb, 2005).

The IMF's support for a country's programs is also seen as a catalytic role in promoting, availability and stability of long-term resource flows to the country. A Study is based on interviews with suppliers of funds, case studies and econometric work all demonstrate that the Fund's catalytic role is very limited (The Hague, 2005).

Another study was conducted on 98 countries that participated in the IMF programs between 1970 and 2000 and found that the IMF programs reduce the growth rates and have a negative impact, although they found that compliance with the conditionality of these programs is limiting this overall negative impact. Also, it found the IMF loans effect is not statistically significant (AXELDREHER, 2006).

In a study of 86 low- and middle-income countries between 1982 and 2009 on the impact of IMF lending programs on poverty and inequality, I found that these programs have negative impacts on the poor and inequality in the short term for the entire sample while for the sample from 2000 to 2009 found the opposite as most of these negative effects that were present in the short term disappeared in the long run (DORIS A. OBERDABERNIG, 2013).

Finally, I present this study that was conducted on 16 West African countries in the period 1995/2014 about the negative impact of IMF programs on government spending on health sector. This study found that IMF programs limit investment in the health sector and reduce the resources of the sector and the number of workers in it, such as nurses And it fended the IMF programs reduce the government health spending by 0.248% per capita.

The study says that the conditionality of IMF programs impedes achieving universal health coverage in West African countries by imposing a reduction in government spending, and this have a negative impact on growth (Alexander Kentikelenisc,d, David Stucklerc, Martin McKee,Lawrence Kinga 2016).

Conclusion

The fiscal rules in low-income countries are very important. It helps to increase economic growth and stability by reducing procyclicality of policy if it is well design . Often, the fiscal rules combine the objectives of sustainability with the need for flexibility to account for economic shocks.

The supranational rules have proven their efficiency for the economic unions and countries monetary union because they maintain a certain level of fiscal discipline, especially with regard the level of budget deficits and the level of inflation and interest rate. As for the national rules, they are also important because they help governments to control the level of public debt by keeping the budget deficit within reasonable limits, by butting a ceiling on the spending. Fiscal rules also avoid oil-exporting countries the oil market price fluctuations, and creating a fiscal buffer for these countries, which helps them absorb unexpected external and internal shocks.

The weaknesses of fiscal rules are they may not be applicable in all circumstances. In major crises as financial crises 2008, countries may abandon their application of these rules, and their lack of flexibility and big gap of growth in low-income countries may make them limit growth in these countries.

The stabilization policies and fiscal rules have not achieved much growth in the long term, at least for the past 10 years Growth rates have remained very low because stabilization policies and fiscal rules have been primarily aimed at reducing the annual budget deficit by imposing restrictions on government investment spending what effect the infrastructure, health and education spending and this has had a positive impact on the level of debt and the negative impact on development on long term.

Maintaining public debt at reasonable levels is very important for low-income countries, but its increase is necessary for the development process in these countries due to its limited revenue and their great need for more infrastructure and spending on health and education in order to form future generations.

The main challenge for policy makers in these countries and in the International Monetary Fund is to design stabilization policies and fiscal rules that achieve the balance between general investment these countries need in order to grow and maintain debt sustainability in the same time and that's can be tough.

Improve the performance of restriction policies on public spending and align them with the development needs of each country and reduce their negative impacts on the poor and on development in general.

Improve public government investments and make them more effective and more benefit.

Mobilizing local resources and working to increase government revenues by reforming the tax system and expanding the tax base without including farmers, miniatures, occupations, free and unrated businesses, and small projects, as they are the livelihoods of the poor.

The International Monetary Fund and the governments of these countries should strive to forgive low-income countries from debts or at least debt service, which has become one of the biggest sources of annual government budget drain and the biggest crowd of public investment spending that is the basis of long-term development.

The IMF should contribute to developing and dealing with oversight agencies independent of the government, such as politicians, parliaments, and civil society organizations interested in development and research centers in these countries.

The International Monetary Fund calls on governments in low-income countries to have more transparency in the management of public funds, and mechanisms must be put in place to enable them to monitor and follow up loans to these countries because most of them are looted. At least senior officials in my country.

The International Monetary Fund should not depend in designing its policies on the indicators and economic figures provided to them by the governments of these countries because it is not accurate and the government's goal is to satisfy the visiting mission of the International Monetary Fund to obtain the next loan. Consequently, the Fund must develop new mechanisms to obtain accurate information such as cooperation with the study centers in these countries.

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